



Report to the Secretary of Defense

Innovation and Cultural Change Task Group Report

Report FY06-3

- **Recommendations regarding how the Department of Defense (DoD) can establish a lasting culture that rewards and promotes innovation and continuous improvement.**

May 2006

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INNOVATION AND CULTURAL CHANGE TASK GROUP REPORT

TASK

In March 2006, Deputy Secretary of Defense, Gordon England, asked the Chairman of the DBB to form a Task Group to assess and provide recommendations for the Department of Defense (DoD) to establish a lasting culture that rewards and promotes innovation and continuous improvement (**Appendix A**). As outlined in the 2006 Quadrennial Defense Review (QDR), the Department has embarked on a “revolution in management, technology and business practices.” Successful enterprise transformation depends on the extent the Department’s people embrace (and learn) the new guiding principles espoused in the QDR: reward innovation; collaborate and share information; become agile, flexible, responsive to stakeholders, accountable, and efficient; and promote a more integrated and transparent decision-making culture and process.

Specifically, the Task Group was asked to provide the following actionable recommendations:

1. Benchmark private sector best practices of companies most noted for successful innovation and change management, such as 3M, Hewlett-Packard, UPS, Microsoft, eBay, IBM, etc., identify critical common elements necessary to successfully create and sustain an enterprise culture that believes that innovation creates value for all stakeholders.
2. Provide an assessment of the Department’s enterprise culture and recommend actions to overcome current barriers to establishing and sustaining a lasting culture that rewards and promotes innovation and continuous improvement.

Task Group Chairman: Henry Dreifus

Task Group Members: Barbara Barrett, Herman Cain, Jim Haveman, James Kimsey, Mortimer Zuckerman

Task Group Sponsor: Deputy Secretary of Defense, Gordon England

Task Group DoD Liaison: Michael Dominguez, Assistant Secretary of the Air Force, Manpower and Reserve Affairs

Task Group Executive Secretary: Kelly Van Niman (DBB Executive Director)

PROCESS

The Task Group interviewed current and retired DoD leaders, reviewed multiple previous studies and research and engaged outside experts. For example, during the March 8, 2006 DBB meeting, DBB Members received a background briefing by Dr. Marietta Baba on “Organizational Change Management – A Systematic Approach to the Transformation of People, Organization and Culture” (**Appendix B**). Dr. Baba is a renowned industrial anthropologist who has advised leading corporations such as Motorola, Proctor & Gamble, Whirlpool, IBM and Ford on successful organizational and cultural transformations. Dr. Baba is Dean of the College of Social Science, and Professor of Anthropology, at Michigan State University. The Board is grateful for her time, insights and guidance.

Additionally, on March 8th, Dr. Christopher Lamb of the Institute for National Strategic Studies briefed the Board on the critical issues related to the strategic and organizational changes required to create a better Pentagon decision culture (**Appendix C**). The Board is grateful for Dr. Lamb's insights and assistance.

The Innovation and Cultural Change Task Group worked in conjunction with three other concurrent DBB Task Groups, and collectively, their work encompassed the critical focal points for realizing sustainable Defense enterprise transformation – people, culture and organization. The Task Group Chairmen worked closely together to provide a unified approach. The three other Task Groups were: Shaping and Utilizing the Senior Executive Service (SES) within the Department, Creating a Chief Management Officer in the Department of Defense, and Governance – Alignment and Configuration of Business Activities.

Each of these Task Groups shared the common goal of improving overall organizational performance. Research has shown that realization of lasting improvements requires an integrated approach to changes in managing people, culture and organization. This Task Group report should be considered in the context of the additional reports mentioned above and published on the DBB website at www.dod.mil/dbb. The Task Groups presented their findings and recommendations to the full Board on May 31, 2006 (**Appendix D**).

RESULTS

During the May 31, 2006 deliberations, the Board agreed (consistent with the research presented by Dr. Baba) that (1) any effective approach to organizational change management must begin with a strategic vision that generates clearly articulated business goals and metrics that will be applied to measure results; and (2) lasting change is determined in part by the nature of the imperative for change – the more urgent and compelling this imperative, the more likely lasting change will result. The Board emphasized the need to create “triggers” for change and other “forcing functions” with goals and timelines.

The Department has multiple, interlaced cultures that perceive the enterprise differently. These organizational cultures comprise both similar and dissimilar values, beliefs, assumptions and behaviors by their organizations’ people. Best practice companies unify multiple cultures within their organizations through a shared vision and purpose that is clearly communicated and reinforced by leadership. Continuous training and clear communications are critical, best practice tools applied by industry to support an organization’s strategy and vision, and to sustain transformation and innovation within the organization.

Since transformation of organizational processes is a result of changes accomplished by people, process change requires people’s behavior (as well as values, beliefs and assumptions, e.g. culture) to change. Therefore, the Board recommended that consistent with industry best practices, the Department should accept and explicitly apply “culture” as one of the key levers to transform the enterprise.

Senior DoD leadership is responsible and accountable for guiding and fostering a transformed culture, and must use various communication tools to accomplish this mission. The Department should apply enterprise-wide Knowledge Management tools, such as “Army On-Line” to achieve a multiplier effect of sharing knowledge at every level within the organization. Further, the Department should engage the SES corps to drive and sustain the desired culture and outcomes – teamwork and collaboration.

The Department must reward and encourage behavior that drives the desired cultural change in order to create a purpose-driven, results-oriented and aligned organization. The Board offered several specific recommendations which could be adopted by the Department, including the

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creation of “circles of excellence” awards and events for Pentagon “change agents” who promote innovation and continuous improvement.

In summary, the Board made the following recommendations:

1. Recognize and use “culture” as a change tool.
2. Develop and promote guiding principles as part of a shared vision.
3. Communicate the desired culture to all levels of the enterprise.
4. Encourage, reward and continuously reinforce change.

CONCLUSION

The current Defense enterprise promotes a risk-averse culture that is afraid to fail and strongly resists change. For the Department’s leadership to achieve the goal of creating a lasting culture that rewards and promotes innovation and continuous improvement, it must start by articulating a common, strategic vision for the Department that will impel a purpose-driven organization. Such a vision should be part of a comprehensive, enterprise Strategic Plan that defines the desired organizational culture required to achieve enterprise goals and provide effective support to the joint warfighter.

Respectively submitted,

Henry Dreifus
Task Group Chairman

Defense Business Board

Attachments:

Appendix A: Terms of Reference Memo

Appendix B: Dr. Marietta Baba, “Organizational Change Management – A Systematic Approach to the Transformation of People, Organization and Culture”

Appendix C: Dr. Christopher Lamb, DoD Organizational Strategy

Appendix D: May 31, 2006 DBB Opening Presentation Slides and Innovation and Cultural Change Task Group Final Presentation

APPENDIX A

(Terms of Reference)

Defense Business Board



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

MAR - 3 2006

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD (DBB)

SUBJECT: Terms of Reference – DBB Task Group on Innovation and Cultural Change

Request you form a Task Group to assess and make recommendations regarding how the Department of Defense (DoD) can establish a lasting culture that rewards and promotes innovation and continuous improvement. DoD has embarked on an historical transformation journey to fundamentally change the way it does business. The Department's new enterprise management approach is designed to break down stovepipes and foster a business culture that drives horizontal end-to-end processes in support of the joint warfighter. Innovation with respect to the management of business activities is coupled with an innovative approach to the management of the Department's personnel under the new National Security Personnel System. Successful implementation is the critical next step.

The Task Group should deliver actionable recommendations with regard to the following:

1. Benchmarking private sector best practices of companies most noted for successful innovation and change management, such as 3M, Hewlett-Packard, UPS, Microsoft, eBay, IBM, identify critical elements necessary to successfully create a "corporate culture" that believes that innovation creates value for all stakeholders. For example,
 - o Common organizational design changes that were made (creating "centers of innovation")
 - o Flattening of management hierarchy
 - o Forming cross-functional teams
 - o Use of financial and other incentives to promote / encourage sound financial management and greater cost-consciousness
 - o Common practices/processes that contributed most significantly to their successful achievement of a culture, people and organization that continuously seeks improvement (communications, employee/stakeholder involvement and empowerment, outside/global expertise and advice, etc)
2. Provide an assessment of the Department's enterprise culture and recommend actions that must be taken to overcome current barriers to establishing and sustaining a lasting culture that rewards and promotes innovation and continuous improvement. For example,



Defense Business Board

- Necessary changed behaviors, new skills, knowledge, characteristics of the workforce, and
- Practices/processes required to make the organizational changes happen.

Mr. Gordon England, the Deputy Secretary of Defense will sponsor the Task Group. Mr. Mike Dominguez, Assistant Secretary of the Air Force, Manpower and Reserve Affairs, will be the DoD Liaison. Mr. Henry Dreifus will be the Task Group Chairman. Kelly Van Niman, Executive Director of the DBB, will be the Task Group Executive Secretary. The Task Group will present a final report no later than May 31, 2006.

The Task Group will be operated in accordance with the provisions of P.L. 92-463, the "Federal Advisory Committee Act," and DoD Directive 5105.4, the "the DoD Federal Advisory Committee Management Program." It is not anticipated that this Task Group will need to go into any "particular matters" within the meaning of Section 208 of Title 18, U.S. Code, nor will it cause any member to be placed in the position of acting as a procurement official.

A handwritten signature in black ink, appearing to read "Gordon England", with a long horizontal flourish extending to the right.

APPENDIX B

Dr. Marietta Baba

**“Organizational Change Management – A Systematic
Approach to the Transformation of People, Organization and
Culture”**

Organizational Change Management – a Systematic Approach to the Transformation of People, Organization and Culture

Marietta L. Baba
(February 28, 2006)

Vision and Objectives

In the recently released Quadrennial Defense Review (QDR), the Department outlined a vision to reshape the Defense Enterprise, to include its structure, processes and culture. The QDR calls upon the senior leadership of the Department to establish an organizational culture that fosters innovation and excellence. The Department seeks to create a Defense support infrastructure that is agile, flexible and horizontally integrated. To achieve this vision of lasting cultural change that promotes innovation and excellence, the Department of Defense must develop clear strategies to transform not only its business processes, the associated information systems supporting them, and the organizations in which they reside, but also strategies to transform its people and culture.

Organizational Transformation

Enterprise transformation cannot be delivered with the human skills, business processes, organizational structures and cultures that were created decades ago. To support the DoD's vision for a flexible, agile, and horizontally integrated enterprise, there is an urgent need for transformation in ways of doing business that are compatible with 21st century business processes and technological capabilities and requirements.

This latter statement reflects a fundamental principle underlying socio-technical systems (STS) theory, a framework for understanding relationships between technology, organizations and people, which holds that all work organizations, public and private, are socio-technical systems that combine interdependent technical (including technology, systems, and embedded processes) and human or social (including people, organization, and culture) elements. These elements rely upon one another to deliver results; neither can accomplish its objectives without interactions between them. The nature of their interaction determines how effective and efficient an organization can become.

Because technical and social elements form an interacting system, major

change in the technical elements require changes in human and social elements; e.g., if new information technology or a new business process is introduced, personnel need new skills and roles, the organization needs to reconsider its work processes and designs, and everyone needs to learn to run the business in new ways. For example, purchasing and installing a new software system (i.e., technical change) does not automatically guarantee changes in people, organization, and culture. These dimensions have to be changed through careful planning and execution by the people inside the organization.

Organizational Change Management

Any effective approach to Organization Change Management (OCM) must begin with a strategic vision that generates clearly articulated business goals and metrics that will be used to measure results. Chances for lasting change are determined in part by the nature of the imperative for change—the more urgent and compelling the imperative, the more likely the chance of lasting change. These points cannot be overemphasized.

OCM works in tandem with technical change management, usually meaning changes in business processes and information technology and systems, to deliver greater value to stakeholders through pursuit of strategic goals. The remainder of this document assumes that a technical change process is running in parallel with OCM [1]. A significant problem in technical change management is a tendency to underemphasize (or ignore) organizational change. As a result, the majority of serious difficulties reported in technical change programs relate to OCM.

There is no widely accepted theory of Organizational Change Management (OCM), however there are several mid-range theories and/or guiding principles regarding organizational change that represent current leading practices. If used together, they can create a mutually reinforcing field that makes directional change more likely. Leading practices represent OCM as a process involving several phases, including: 1) an organizational readiness assessment; 2) planning and implementation of key elements of OCM; and 3) assessment of OCM activities and continuous improvement.

Phase I: Organizational assessment. Before implementing major change in any organization, it is crucial to assess the organization's

¹ The full version of this document contains additional sections focusing on Enterprise Resource Planning (ERP) as an example of technical change, and provides a more detailed discussion of OCM for ERP.

baseline state, which begins with an analysis of the organization's 'as-is' condition. A baseline assessment gives an indication of those factors in the organization that will support the 'to be' vision for change (resources, or forces for change), and those that may pose impediments to change (risks, or forces against change). In OCM, the *resources* are used to facilitate the change process, while *risks* are reduced, eliminated or managed to neutralize their effects. Baseline assessment begins with an understanding of the vision or 'to be' state, and then compares these requirements with the 'as is' state (i.e., a gap analysis). Making the gap explicit clearly highlights the reasons why change is necessary, and can provide a blueprint for actions needed in Phase II. Specific factors assessed in this phase are contingent upon the nature of the organization's strategy, performance goals, and targeted technical change (i.e., the 'to be' state).

Phase II: Planning and Implementing Key Elements of OCM.

Organizational transformation is facilitated by six elements of OCM that are described below. When implemented in concert, these elements improve the chances that a transformation initiative will meet its goals. These elements are used to *actively manage change*—to facilitate change 'on the ground.' Thus, if our organization faces specific risks in the implementation of new technology or any other aspect of logistics modernization, these six OCM elements can be very useful in helping us to reduce, eliminate, and/or manage the specific risks. These elements also can draw upon organizational resources to strengthen change processes.

OCM Element #1: Leadership. Leaders create and articulate a vision for the future that is compelling and motivating, and they move ahead of others and show the way. This is necessary when people face an uncertain future, and fear risk of loss. Such leadership cannot be delegated to the technical team; it has to be owned by the top. The strongest leadership is provided when the leadership team throughout the organization is aligned around a consistent message for change, up and down the chain of command and across all organizational units. Such alignment requires significant management education and communication. Leadership should be distinguished from sponsorship and from champions, who also are very important to transformation efforts. They are typically higher-level managers who take responsibility for oversight and support of a transformation initiative by removing barriers and providing resources.

OCM Element #2: Communication. Different types of individuals may 'buy into' new ideas or technologies at different points in times (e.g., innovators versus early adopters), and there is a 'buy-in' process that

depends upon effective communication at each stage in the process. Different sources of information, and different kinds of communication channels, are important at different stages (e.g., mass communication, opinion leaders). If a formal communications program is not established, then an informal one will grow up spontaneously, as people struggle to make sense of what is happening around them. 'Out of control' communications usually mean that rumors rule, and this can be a serious force against change, especially if the transformation effort runs into difficulty.

OCM Element #3: Organizational Evolution. To achieve significant performance improvements, a business must consider improvements in work process and organizational structure. These may be enhanced, streamlined, eliminated, or new ones may be invented. Lean processes and reengineering can streamline work and information flow across organizational units, eliminating non-value added activity. Some processes may be outsourced. Other possibilities are acceleration, task improvement, and output improvement. Generally, it is advised that such activities be conducted in conjunction with the implementation of new information technologies to enable the greatest gains in efficiency. Innovative organizational designs and incentives also can encourage practices that support enterprise integration.

OCM Element #4: Participation. The greater the degree of participation an individual has with an activity, the more likely it is that he or she will experience a sense of ownership and buy-in, meaning acceptance of the activity as legitimate and worthwhile for the organization. People are more likely to give their best ideas to an effort in which they feel some ownership. To facilitate participation, the OCM process should respond positively to members' questions and challenges by engaging such individuals – reach out and involve them on a systematic basis, and find ways to involve their personal networks. Also, encourage and support involvement by recognizing and rewarding individuals who provide outstanding service to enterprise integration efforts.

OCM Element #5: Education and Training. A horizontally integrated enterprise requires more than transactional training—it takes a learning organization approach, in which the entire organization supports learning. Users of new technology should understand not only their own job-related functions, but also the work process flow upstream and downstream from their positions, so that they can conceptualize the logic underlying the system, and be prepared to troubleshoot and help others. We need to

adopt best practices that ensure *learning* is taking place in each class, not only attendance. Lead users are another critical concept to anchor complex new technologies in a learning organization. There also should be a well thought out provision for management education. A truly integrated enterprise requires that managers understand the transformation, and how to run an integrated enterprise.

OCM Element #6: Resistance Management. When individuals in positions of authority work against transformation, either openly or behind the scenes, then we face a serious force against change. Such individuals can mobilize or encourage others to resist and can create roadblocks that are difficult to overcome. It is not accurate to characterize all resistance as negative; it can play a constructive role as well. Sometimes those who resist have good reasons, and they always should be given a fair hearing. If resistance is based on the accurate perception of disadvantage, it may be possible to work out means to lessen the difficulty. Whatever the case, do not ignore resistors in positions of authority. This is liable to make matters worse in the long run.

Planning and Implementing Change. The process by which the gaps identified in Phase I are closed to achieve the vision using the six OCM elements described above is a complex and challenging process that requires both planning and execution by a strong leadership team. Leadership must own the plan and its implementation, or chances for lasting change decline. Each of the elements described above should be planned and executed under the guidance of an OCM leader who reports directly to the top team, together with technical leadership.

Phase III. Assessment of OCM Activities and Continuous Improvement. To reflect the importance of effective organizational change management to the long-term success of Enterprise Transformation, it is vital that these efforts be assessed and revised based on feedback from people engaged in work at the implementation sites. An assessment process should be established in collaboration with the organization, and on-site assessments conducted periodically. Results should be reported to leadership at the same time technical progress is reported.

APPENDIX C

Dr. Christopher Lamb

DoD Organizational Strategy

Why and Where Change is Needed (not just a leader issue)

New Strategic Environment:

- **Volatile** environment
- **Diffusion of knowledge** lowers barriers to competition
- **Global** security challenges and capabilities
- **Asymmetric** and disruptive challenges
- **Nimble** and adaptive enemies



New strategy-driven imperatives:

- Contend with uncertainty (i.e. complexity)
 - **Make decisions quickly with better integration from global perspective**
- Fuse DoD efforts with allies & other agencies
 - Missions demand it
- Exploit military transformation; others will

C O L L A B O R A T I O N	AGILE, ADEPT & ADAPTIVE		C O L L A B O R A T I O N
	Goals, Policy and Strategy <ul style="list-style-type: none">• Vision, strategy, planning parameters<ul style="list-style-type: none">– Strategic Communications• Needs and resource allocation<ul style="list-style-type: none">– Capabilities-Based Force Development• Bilateral/Multilateral relations<ul style="list-style-type: none">– Security Cooperation• Net Assessments	Force Generation <ul style="list-style-type: none">• Acquisition, Logistics, Science and Tech• Manpower• Education and Training	
	Operational Guidance <ul style="list-style-type: none">• Contingency planning<ul style="list-style-type: none">– Adaptive Planning• Current force allocation<ul style="list-style-type: none">– Global Force Management• Force Employment Oversight• Concepts and Doctrine	Institutional Management <ul style="list-style-type: none">• Outreach (Legislative and Public Affairs)• Administration and Management (Legal, Inspector General, etc.)• Financial Accountability	
	Common Analytic Tasks		

Practice has not followed theory. How do we actually do it?

QDR Senior Leadership Focus

- A key measure of success is the extent to which the Department's senior leadership is able to fulfill the following functions:
 - Strategic Direction
 - Identify the key outputs – not inputs – they expect from the Department's components and determine the appropriate near-, mid-, and long-term strategies for achieving them. Such outputs will be focused on the needs of the President as Commander in Chief and the joint warfighters.
 - Identity
 - Establish an organizational culture that fosters innovation and excellence. Communicate the Department's strategy, policy and institutional ethos to the internal workforce and to external audiences.
 - Capital Acquisition and Macro Resource Allocation
 - Shape the Department's major investments in people, equipment, concepts and organizations to support the Nation's objectives most effectively.
 - Corporate Decision Making
 - Implement agile and well-aligned governance, management and work processes. Ensure the Department has the processes, tools and transparent analyses to support decisions.
 - Performance Assessment
 - Monitor performance to ensure strategic alignment and make adjustments to strategic direction based on performance.

Organizational Strategy

Problem

- Can't make strategic tradeoffs well or quickly enough
- Can't allocate resources effectively in support of strategy
 - SECDEF is first point for end-to-end problem and solution identification
 - He does not have the necessary time or decision support
 - Roles and functions are confused
 - Committees are ineffectual; not configured or empowered for action
 - Collaboration is not rewarded
 - All this is true for the Interagency as well

Cost

- Enemies make decisions, act, and adapt faster than we do
- Enemies exploit the “seams” and gaps in our security posture

Solution

- Organizational strategy for producing desired outcomes and for who does what
- Then export the strategy to the interagency

QDR

- Senior leader focus on five key responsibilities
- Under “Additional Governance Reforms” DoD is said to be considering:
 - Designating a single lead advocate for the future joint warfighter...

Horizontal Organizations

Problem

- Rigidly-vertical organizations cannot produce integrated products quickly
 - Can't collaborate with one another or with other agencies
 - Can't generate integrated options for senior leaders
 - Senior leaders don't feel supported; believe staff is too large
 - Middle management works hard but not to good effect
 - Lack clear roles, responsibilities and understanding of desired outputs
- Can't rationally allocate resources to capabilities to missions
 - Strategy not based on explicit choices between alternatives
 - Can't agree on how capabilities are measured or who should do so

Cost

- Senior leaders poorly supported despite large staff
- Capabilities not matched to strategic priorities

Solution

- Empowered horizontal organizations for key strategic outcomes and assets

QDR

- Under "Additional Governance Reforms" DoD is said to be considering:
 - Creating new horizontal organizations...

Decision Support

Problem

- Real options not vetted (volunteers dilemma)
- Information is not freely shared; it is used to persuade, not assess
- Leaders are not well informed on the risks of alternative courses of action

Cost

- Inefficiency and less well informed decision making

Solution

- Decision support cell to assist SECDEF (and SLRG) with 5 core tasks
 - Tees up major trades; conducts supporting strategic analysis; no recommendations
- Shifts culture to information sharing & comparative analysis
 - Sets standards for decision support processes and products
- Administers analytic backbone through supporting horizontal organizations:
 - Scenarios (MSFD conferences)
 - Joint Operating Concepts
 - Joint Data (joint Data Support)
 - Joint Methods of Analysis (Defence Modelling and Simulation Org)
 - Operational Risk Metrics
 - Institutional Knowledge (Defense Technical Information Center)

QDR

- Emphasizes information sharing and collaboration
 - The Department will implement a more transparent, open and agile decision-making process...common authoritative information sources...common analytic methods...

Chief Administrative Officer and Shared Services

Problem

- Core functions are not well supported
- Supporting organizations do not recognize themselves as such
- They do not collaborate
- Demand is inflated by customers; supply is indifferent to the customer

Cost

- Inefficiency that draws resources from core functions
- “Friction” that degrades performance of core functions; sometimes in a crippling fashion

Solution

- Chief administrative officer
- Shared services (market principles, not primarily consolidation)

QDR

- Under “Additional Governance Reforms” DoD is said to be considering:
 - Migrating toward a shared services model for support functions...

APPENDIX D

(Task Group Final Report – May 31, 2006)



Defense Enterprise Transformation: Organization, Culture and People

***A Systematic Approach
for
“Team Defense”***



Secretary Rumsfeld Remarks:*

“Just as we must transform America's military capability to meet changing threats, we must transform the way the Department works and what it works on”.

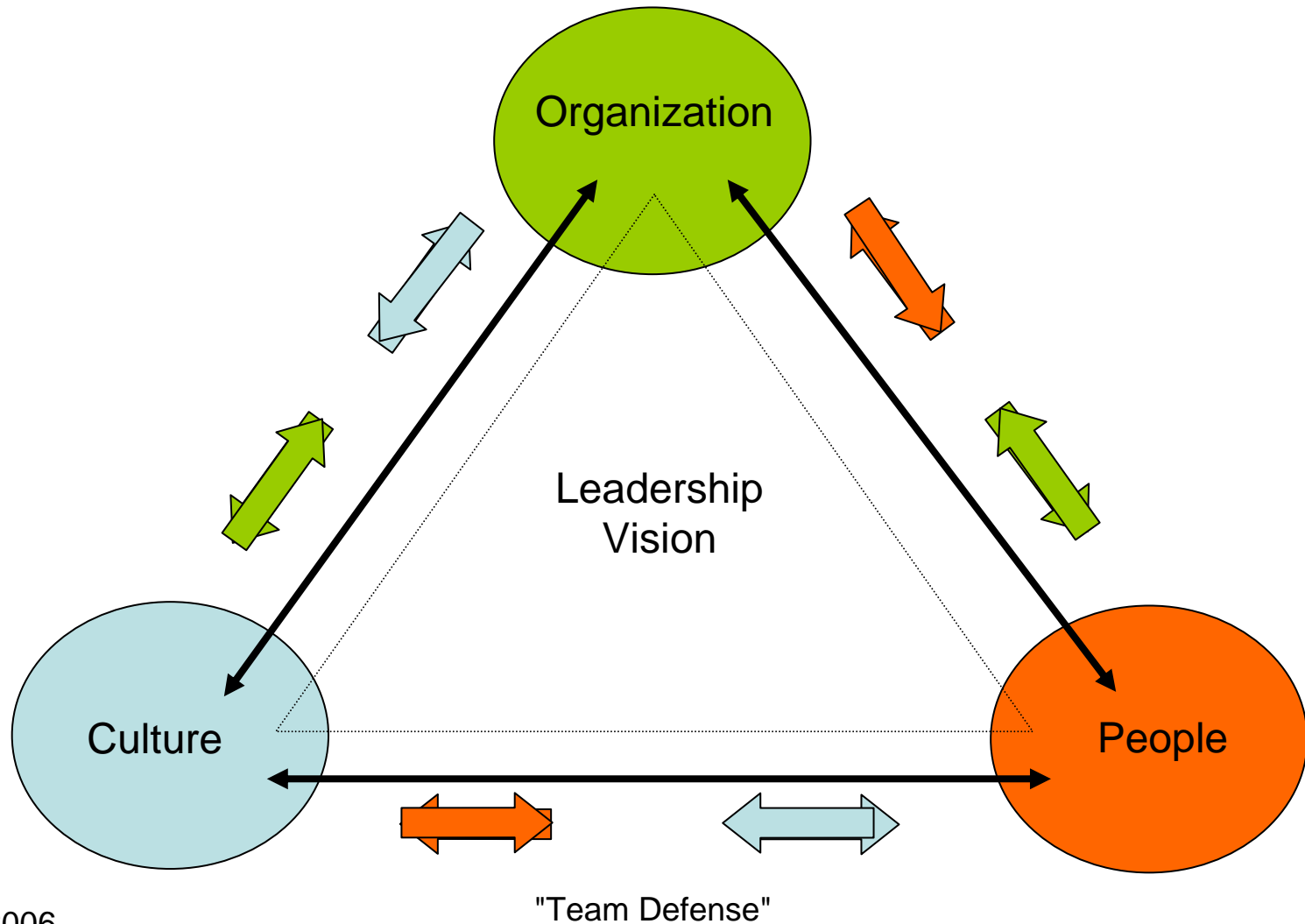
“Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business”.

“Every dollar squandered on waste is one denied to the warfighter. That's why we're here today challenging us all to wage an all-out campaign to shift Pentagon's resources from bureaucracy to the battlefield, from tail to the tooth.”

*Extracts from *Remarks as Delivered by Secretary of Defense Donald H. Rumsfeld, The Pentagon , Monday, September 10, 2001*



Levers for Enterprise Transformation





Organization, Culture and People

- Organization
 - Formal structure of roles, relationships, processes, tasks, interdependencies, incentives and technology
- Culture
 - Informal learned patterns of behavior, thought, and feeling that are shared with newcomers
- People
 - Individual characteristics, knowledge, skills, abilities, attitudes and perceptions



Key Barriers to Change at DoD

- **The Services are programmed to resist integration due to historical and legal barriers**
- **Political oversight contributes to a risk and change adverse culture**
- **The split between military and civilian communities makes management at the top difficult to coalesce**
- **Disparate AD HOC processes (formal / informal) are used as work-arounds to current structure (organization / process / budgets)**
- **Current culture sees little reward in the benefit that a better DoD Enterprise management would provide**

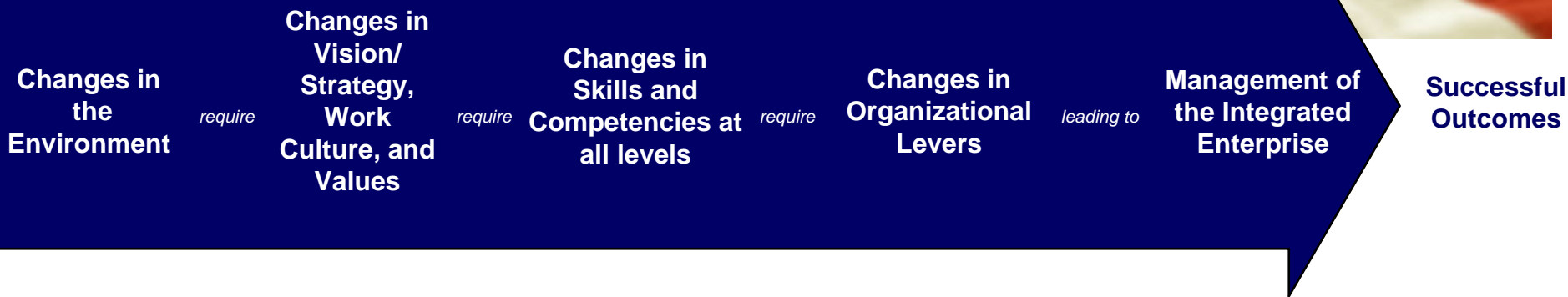


Leadership owns organizational change

“Many organizational change efforts have not altered the behavior, focus and performance of leadership which sets the tone for whether change is sustained or merely the "program dujour.” *DEPM 1997*



Levers for Change





DEFENSE BUSINESS BOARD

Task Group on Innovation and Cultural Change

May 31, 2006

“Team Defense”



DBB Task Group

Barbara Barrett

Herman Cain

Henry Dreifus (Chairman)

Jim Haveman

Jim Kimsey

Mort Zuckerman

Kelly Van Niman (Executive Secretary)

Lynne Schneider (Deputy Director)

Ryan Bates (Staff Assistant)

Professor Marietta Baba, Dean, Michigan State University (Contributing Advisor)

Professor Chris Lamb, National Defense University (Contributing Advisor)

DoD Sponsor

Honorable Mr. Gordon England (Deputy Secretary of Defense)

DoD Liaison

Mr. Mike Dominguez, Assistant Secretary of the Air Force, Manpower and Reserve Affairs



- Provide enterprise recommendations to enhance a lasting culture that:
 - rewards and promotes innovation and continuous improvement, and
 - fosters a mission focused culture that drives horizontal end-to-end collaboration in support of the joint war fighter
- Snapshot the Department's enterprise culture and recommend steps to overcome current barriers to change incorporating as appropriate government and industry best practices



Recognize and Elevate Culture as a Tool for Change

- Communicate shared vision and purpose
- Reward and...
- Reinforce desired culture/behavior



- Evaluated the current and prescriptive states of the enterprise:
 - Department interviews (current and retired professionals)
 - Private company comparison
 - Academic perspectives
 - Review of literature and prior research



“Most innovations fail. And companies that don’t innovate die...In today’s world, where the only constant is change, the task of managing innovation is vital for companies of every size in every industry. Innovation is vital to sustain and advance companies’ current business; it is critical to growing new business. It is also a very difficult process to manage.”

- Professor Henry W. Chesbrough

Open Innovation

Haas School of Business,
Berkeley California



Why do organizations protect and perpetuate of the status quo?

Organizational culture is the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.

- Dr. Edgar Schein

Professor, Sloan School of Management



- Enterprise transformations fail not by a lack of focus or interest, but due to their complexity, coupled with social and structural inhibitors to change
 - Process improvements are a result of changes accomplished by people
 - Therefore, process change requires people to change
- Defense has multiple interlaced cultures, with different guiding principles and values, for example:
 - Term Appointees
 - Career Civilians (union/non-union)
 - Military (Active/Reserve)
 - Contractors (for-profit/not-for profit)
- Civilian, military and contractor professionals perceive the enterprise differently:
 - Civilians tend to think and act locally and individually (function)
 - Military tend to think first of their Service and act more as a unit
 - Commercial entities think “bottom line”
- Successful change requires a sustained forcing function – for example:
 - Congressional actions through law and statute (e.g. Goldwater-Nichols, BRAC, NSPS)



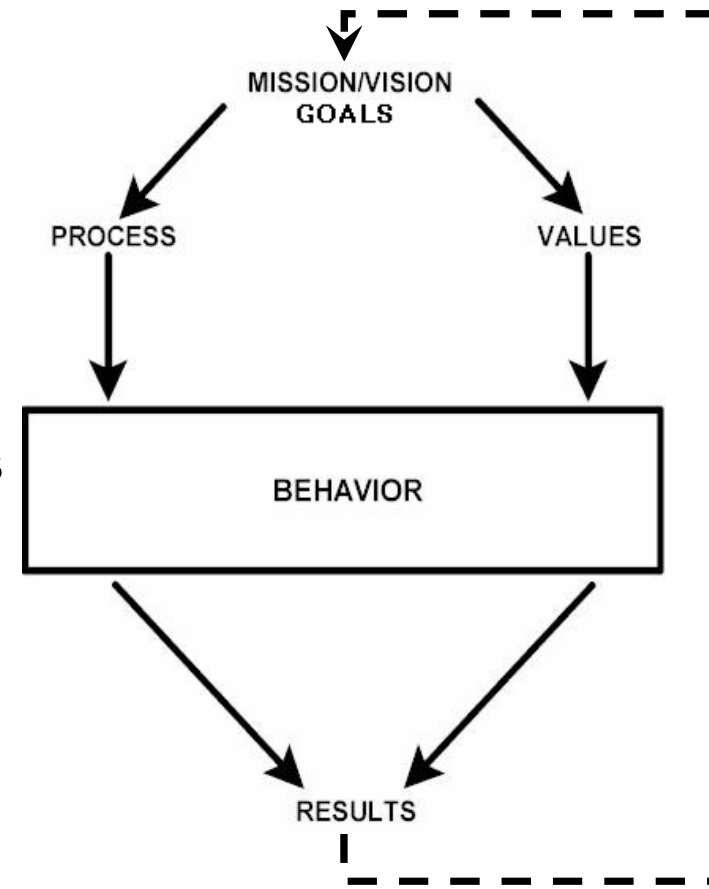
- Enterprise promotes a risk-averse culture that is afraid to fail and resists change
 - Senior leaders have become risk managers, in part due to external influences including congressional oversight and media
 - Industry best practices promote a culture of prudent risk
- Significant core skills are no longer internal to the workforce
 - Contractors provide a mechanism to achieve outcomes not otherwise achievable using internal resources and manpower
- Defense mission at times is not clearly defined; it attempts to meet every need
 - DoD uncomfortable as a partner sharing responsibility (inter-agency/government)
 - Numerous programs, services and elements overlap and compete. Counteraction and friction between OSD and Services, centralized v. decentralized decision making, etc.
 - Military providing many functions that could/should be accomplished by civilians



- Best practice companies unify multiple cultures within their organizations through a shared vision and purpose communicated by leadership
- Continuous training and communications are best practice critical tools used by industry to support strategy / vision
 - Infusion and rotation of talent from other organizations is the fastest way to achieve meaningful change and break down the organizational “silos”, i.e., logistics to human capital management to finance
 - Training is the fastest way to sustain transformation and innovation in an organization
- Processes have become too fragmented and out of alignment – resulting in abstruse ownership and accountability, as well as conflict and confusion
 - Goal alignment and enterprise transparency are needed best industry practices
- Insights from Central Government Reform of Japan (started in 1999)
 - Streamlining Government from viewpoint of “from the public sector to the private sector” to improve performance, accountability, transparency and introduce performance-based salaries (metrics)



- Organizational culture drives employee behavior – and employee behavior drives culture*
 - Especially important in organizations where roles and responsibilities are hard to differentiate, and employees must act independently
 - Employees in successful enterprises must understand the organizational goals and results, as well as, the cultures and values
 - Most admired companies display and continuously reinforce cultures that promote initiative, collaboration, and high levels of teamwork



* Hay Insight Selections, April 2005



- Successful enterprises have a purposive and impassioned focus on culture – as a tool that shapes their environment in the pursuit of goals
 - Common amongst the Fortune’s “*100 Best Companies to Work For*”
 - Workplace is enjoyable and satisfying
 - Jobs and work have meaning
 - Good internal communications
 - People respect each other’s time
 - Teamwork is valued
 - Performance is rewarded
 - Job functions are clear
 - Accountability is measured
- Laws of Knowledge Dynamics* apply
 - Knowledge multiplies when shared (knowledge in action)
 - Value is created when knowledge moves from its point of origin to the point of need or opportunity, *id est*, innovation
 - Collaboration and leveraging the knowledge of one another creates the greatest value and sustainability

*Source: “*Knowledge Economics: Emerging Principles, Practices and Policies*,” Edited by: Debra M. Amidon, Piero Formica, and Eunika Mercier-Laurent



1. Apply “culture” as a change tool – prescript and promote guiding principles/shared vision that complement enterprise goals
 - Integrity
 - Renew the “oath of office” each year
 - Excellence
 - Recognize on merit and performance, not seniority
 - Teamwork and Collaboration
 - Implement efficient, networked business and decision-making processes to clarify and de-conflict roles and responsibilities
 - Promote horizontal fusion, *exempli gratia* “Team Defense”
 - Make work satisfying and respect people’s time
 - Creativity and Innovation
 - Encourage prudent risk – avoid “zero defects” criterion where possible
 - Change should be continuous and rewarded – flexibility and agility are desired
 - Promote openness to external talent, concepts, opinions and ideas



2. Communicate desired culture and accountable principals to all levels of the enterprise transparently

- Impel a purpose-driven and aligned organization that is results-oriented
 - Communicate at every opportunity and at every level not only the “what” but the “why” – the mission must be clear and regarded as important and worthwhile
- Change the culture of “no” into a culture of “know”
 - Apply enterprise-wide Knowledge Management tools (Army On-Line, etc.) to achieve a multiplier effect of sharing knowledge at every level within the organization
 - Use technology to expand “radius of control” because you can’t change what you can’t reach
 - Engage top-down the SES professionals to drive and sustain desired culture and outcomes
 - be proactive/strategic and prepared versus reactive/tactical
 - Avoid dysfunctional secrecy – discourage information and process hoarding, encourage collaboration and teamwork at all levels of the organization
 - Incorporate the military values and perspectives of what the “training” investment represents as a source of knowledge that must be refreshed and updated on a continual basis



3. Reward and encourage behavior that drives cultural change

- Define an objective to introduce and practice innovation and continuous improvement
 - Include as a performance element in NSPS and SES annual performance agreements
 - Tie innovation objectives to organizational goals
- Establish “Circles of Excellence” membership for change agents
 - Use the high level rank awards (medal, diploma and bonus) with visibility of the President and Secretary of Defense involved, and condition award determination on successfully implementing change
- Identify innovative solutions and highlight success stories that show the way toward innovating or improving the enterprise – always striving to do better
 - Solicit enterprise and external perspectives – review/select anonymously – individuals or groups can win (to demonstrate power of team work) – innovative solutions can either fix a problem or innovate and improve an ongoing mission
- Enhance the civilian-military “partnership” to optimize the war fighting mission
 - Increase opportunities for shared experiences between cultures – such as training – to establish and promote better understanding and communication
 - Look to ways to link civilian and military personnel – make it personal – via e-mail, etc.



4. Reinforce the mindset that “Change is the only Constant”

- Create an environment that attracts the most qualified candidates to fill the positions (even for those “reapplying” for their current job assignments)
 - Consider an NSPS-consistent “*eBay for jobs*” allowing for individuals to “bid” for assignments, projects, positions, such as the Navy Assignment Incentive Pay (AIP) initiative
 - Enforce rotation, especially of the SES and senior levels
- Utilize training as a tool to sustain change – invest in civilian training
 - Converge military and civilian training courses wherever possible to promote a common sense of purpose
 - Potential for cost savings as well as harmonizing curricula and culture
- Collaborate and continuously share knowledge with industry leaders to gain the magnified benefits of collective innovation - to mutual benefit
 - Engage with industry leadership from Google, Wal*Mart, 3M, Xerox, IBM, Southwest Airlines, Toyota, LMI, FedEx-Kinko's, GE, *et alia*.
- Create “triggers” for change
 - Establish more “forcing functions” with goals and timelines to sustain change
 - Each Service, Principal Staff Assistant and activity take up their worst problem and empower a change agent within their “radius of control” and fix it



Conclusion

Recognize and Elevate Culture as a Tool for Change

- Communicate shared vision and purpose
- Reward and...
- Reinforce desired culture/behavior



Key points:

- Invest in civilian development
- Rotate civilians
- Make it personal
 - connect warfighter and civilian
 - Respect people's time
- Reward innovation and risk-taking
- Communicate shared vision and purpose to unify diverse cultures at DoD – reinforce at every chance
- Create “forcing functions”
- Identify and fix worst problem in every activity



1. Secretary of Defense directs the development of a DoD Strategic Plan, that defines common vision, core values, guiding principles and desired culture to support enterprise goals – to create a purpose-driven organization
2. Define timeline for achievements



- Desired Outcome: Meet the Quadrennial Defense Review Vision for:
 - Horizontal integration beyond more than “task force” / “committee” decision-making
 - Impassioned focus on the joint war fighter and future accretive joint capabilities
 - Adoption of successful market principles to make business practices more efficient, e.g., shared services
 - DoD as a model of continuous change – innovation and improvement